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FARMLAND REDISTRIBUTION IN KWAZULU-NATAL, 1997-2003

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Seeking to move the land

AT THE TIME OF SOUTH AFRICA's political democratization in 1994, there were some 5.3 million hectares of land available for redistribution in KwaZulu-Natal. From 1997 to 2003, 2,384,009 hectares of farmland were transferred to new owners but only 203,300 hectares, or 3.8% of the area originally available for redistribution, transferred to previously disadvantaged people. This implies an annual rate of redistribution of 0.54%, which falls well short of government's target of 2% per annum. Farmland would have to redistribute at an average rate of 2.6% per annum from 2004 to 2014 in order to reach the government's target level of 30% by 2014.

In this brief, we compare public and private efforts to redistribute farmland to historically disadvantaged groups, and identify policy strategies that would help government meet its goal of redistributing farmland in ways that promote political stability and economic growth.

Rates of redistribution

Based on the race and gender of previous and new owners, we classified rural land transactions as "advantaged to advantaged," "advantaged to disadvantaged," "disadvantaged to advantaged," and "disadvantaged to disadvantaged." "Advantaged" refers to those who had the right to transact in land prior to 1994: whites, government departments, and white-owned corporate entities. "Disadvantaged" comprises those excluded from land markets because of racial and, to some extent, gender segregation: blacks, Indians, coloureds, and women.

Advantaged to disadvantaged transactions were categorized according to mode of acquisition: "grant only," referring to transfers financed partially or entirely with government grants but without a mortgage loan, "government grant plus mortgage loan," "mortgage financed," "cash purchases" and "non-market transfers." Grant only transactions were subdivided into those administered by the government in a willing buyer-willing seller land redistribution program, and those concluded under its land restitution program.

The net rate of farmland redistribution was computed by expressing the area acquired by disadvantaged entrants less the area acquired by advantaged buyers from disadvantaged sellers as a percentage of the area originally available for redistribution. The rate reached its highest level of 1.06% in 2002, following a promising start by the government's Land Redistribution for Agricultural Development (LRAD) program, introduced in August 2001. During 2003, the rate fell sharply to a level below the average rate observed from 1997 to 2001. This fall exceeded the slump in the total area of farmland traded within the province during 2003, possibly emphasizing the disproportionate effect of rising land prices on buyers who are relatively poor and a decline in the value of LRAD grants relative to land prices.

Modes of redistribution

Modes of land redistribution identified in the 1997-2001 census surveys included government grant-assisted land purchases, private purchases (mortgage loan and cash), and non-market transfers (bequests and donations). The 2002 and 2003 census surveys further account for (a) the introduction of government's LRAD program by distinguishing between transactions financed with grants but without a mortgage loan (the "grant only" category mentioned above) and those financed with a combination of LRAD grants and mortgage loans, and (b) differences between transactions financed with grants awarded in terms of the government's land restitution and land redistribution programs.

Transactions financed only with government grants accounted for 47% of the redistributed land yet typically involved land of poor agricultural quality. In particular, farms transferred via government's redistribution program have a weighted mean price of just R734 per hectare, indicating land largely devoid of cropping potential. (By comparison, per hectare prices for the best quality agricultural land in KwaZulu-Natal reached R45,000 in 2003.) It was anticipated that LRAD would change this situation, but improvements in the quality of farmland financed with government grants occurred only where LRAD grants were combined with mortgage loans secured by individual buyers.

Prior to 2002, beneficiaries of both the land restitution and land redistribution programs were awarded Settlement/Land Acquisition Grants (SLAG) to purchase commercial farms. SLAG beneficiaries were means tested and, being extremely poor, had to pool their meager grants (R16,000 per beneficiary household) to purchase a farm. In most cases, farms financed with grants and settled by groups (of up to 500 households) were too small to support all of the beneficiaries as full-time farmers. In addition, members of these groups lacked incentives to invest in collective farming ventures owing to free-rider problems embedded in the community land trusts and communal property associations that were established to represent their interests in the land. Given this flawed institutional environment, it was rational for groups purchasing farms under the redistribution program to buy large areas of "cheap" land (R734 per hectare) for residential and grazing purposes, rather than small areas of high quality cropland. Conversely, restitution claims cut across farmland of both good and poor agricultural quality (weighted mean price of R1,198 per hectare).

LRAD grants differ from SLAG in one major respect: beneficiaries do not have to be poor to qualify for the basic grant of R20,000, and those who have more savings and who can raise bigger loans to finance their farms qualify for successively larger LRAD grants. A beneficiary must inject equity and debt capital totaling at least R400,000 to qualify for a maximum grant of R100,000. This combination of LRAD grants and mortgage loans accounted for 6% of the total area acquired by previously disadvantaged owners in 2002, and 10% in 2003. Twenty farms were acquired using combined grant and loan finance, transferring 5,905 hectares with a market value of about R16.58 million to the previously disadvantaged. At a weighted price of R2,809 per hectare, the quality of farmland redistributed via this mode was significantly higher than that financed only with government grants or privately with cash, and is similar in quality to land purchased privately with mortgage loans (weighted mean price of R3,651 per hectare). We contend that difficulties experienced by commercial banks when attempting to access LRAD grants for previously disadvantaged clients have constrained the area and quality of farmland transferred via this productive mode of redistribution.

Although non-market transactions are more common than any other type of transaction, the total area of farmland transferred via these transactions is small. Over the period 1997–2003, the total area of farmland redistributed by private purchases—82,296 hectares comprising 41,108 hectares financed with cash and 41,188 hectares financed with mortgage loans—exceeded the area financed only with grants awarded under the government's land redistribution program (74,671 hectares). The area purchased with government grants increased after the 1999 temporary moratorium imposed on SLAG was lifted in 2001, peaking in 2002 but declining significantly in 2003. The area financed only with grants awarded under government's land redistribution program fell by 47% from 2002 to 2003, while the area purchased privately with cash declined by a massive 74%. At the same time, the area of farmland financed privately with mortgage loans fell by less than 10%. These findings support the proposition that rising farmland prices squeezed the poorest buyers out of the market in 2003.

The largest of the redistributed farms were those financed with government grants awarded to groups (mean of 508 hectares), while the smallest were transferred through bequests and donations (mean of 41 hectares). Within the set of private purchases, the mean size of farms financed with own cash was small relative to those financed with mortgage loans (114 versus 192 hectares). These observations are consistent with Nieuwoudt and Vink's argument that buyers with limited equity cannot finance large farms using conventional mortgage loans during periods of inflation owing to cash flow problems. Instead they pay cash for less expensive farms. We argue that Act 70 of 1970, which constrains the subdivision of farms into smaller and more affordable units, prevents many emerging farmers from buying land privately because private transactions—unlike those supported with LRAD grants—are not exempt from its provisions.

Transactions financed privately with mortgage loans accounted for the vast majority of the land wealth redistributed in KwaZulu-Natal from 1997 to 2001. The situation changed during 2002 and 2003 owing largely to an upsurge in land claims settled under government's restitution program. When land restitution is excluded, transactions financed only with government grants accounted for 28% of the land wealth redistributed during 2002-2003. This is similar to the shares contributed by private transactions financed with mortgage loans (22%) and cash (26%). The remaining 24% was co-financed with LRAD grants and mortgage loans. Despite its flaws, the LRAD program increased government's contribution to land reform and has drawn private capital and expertise into the process.

Redistribution by gender

Women (as sole owners or married co-owners) are well represented in the overall number of transfers to disadvantaged people, particularly those involving bequests. They accounted for 41% of all the redistributive land transactions recorded during the study period. Men (as sole owners) accounted for 35% and corporate owners for 24%. Within the subset of market transactions, women were well represented in cash-financed transactions, but were under-represented in transactions financed with mortgage loans. In 2002, women were involved in 50% of all transactions co-financed with LRAD grants and mortgage loans. In 2003, this declined to 17%. It would appear that the Ithala Finance and Investment Corporation, which financed most of these transactions in 2002, is more sensitive to gender equity than is the Land Bank, which financed all of these transactions in 2003.

The total area of farmland acquired by women as sole owners or married co-owners was less than that acquired solely by men during 1997-2003 (27,740 versus 45,779 hectares). Moreover, women gained much less land wealth than did men (R57.7 million versus R92.6 million). Farms acquired by women were also smaller on average (54 hectares) than those acquired by men (103 hectares). To some extent, this gender difference in farm sizes can be attributed to the relatively small size of subdivisions redistributed via non-market transfers (bequests and donations) and the fact that much of the farmland acquired by women is inherited.

Characteristics of farmland acquired by disadvantaged owners by mode of redistribution in KwaZulu-Natal, 1997-2003 (constant 2000 prices)

Farmland characteristic	Grant only		LRAD + mortgage loan	Private mortgage loan	Private cash	Private non-market
	Restitution	Redistribution				
Number of transactions	43	146	20	215	364	481
Total area (ha)	20,926	74,671	5,905	41,188	41,108	19,502
Total market value (R million)	23.18	54.47	16.58	150.35	58.19	
Mean area transacted (ha)	487	515	295	192	114	41
Weighted mean price (R/ha)	1,198	734	2,809	3,651	1,398	

Source: Deeds of Transfer

Overall, corporate entrants acquired more land than did males and females together. The gender composition of these corporate entities is not known, except in the case of community land trusts and communal property associations established by government to represent the interests of predominantly male land reform beneficiaries. That these groups were primarily interested in maximizing land area for residential and grazing purposes is evidenced by the poor quality of land purchased by corporate entities (R1,242 per hectare) compared to that purchased by men (R2,257 per hectare) and women (R3,175 per hectare). No grant-funded equity share schemes were known to be operating in KwaZulu-Natal during the study period. Farmworker equity sharing schemes could help to correct the gender imbalance as women are usually well represented among farm workers.

B A S I S
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Steps to spur redistribution

As our analysis shows, the LRAD program briefly spurred the annual rate of redistribution in 2002, which can also be attributed to a backlog of SLAG-assisted transfers being processed after a two-year moratorium. The 2003 slump in redistribution tracks a decline in the total area of farmland transacted within KwaZulu-Natal following a general increase in farmland prices that appears to have excluded the poorest buyers from the market.

Much of the land transferred was poor quality farmland and used for residential and grazing purposes. Of significance, however, is that farmland co-financed with government grants and mortgage loans was of good quality *except* when the mortgage loan was granted by the Land Bank. While this highlights a valuable role for public-private partnerships in land reform, there is concern that the Land Bank has been too lenient in its assessment of creditworthiness and is crowding out commercial banks and other financiers.

Despite its flaws, the LRAD program increased government's contribution to land reform and has drawn private capital and expertise into the process. These findings suggest that the LRAD program would mobilize much more private sector finance for land redistribution if Act 70 of 1970 were replaced with zoning regulations to prevent the loss of good quality farmland to non-agricultural uses. Scrapping Act 70 would facilitate private purchases of land and indirectly alleviate cash flow problems associated with the use of conventional mortgage loans during periods of inflation.

The number of transactions financed with a combination of LRAD grants and mortgage finance decreased from 14 in 2002 to six in 2003, all of which were financed by the Land Bank. The absence of public-private partnerships in financing land during 2003 is of concern. A possible obstacle to these partnerships is that grant funds are not readily accessible, resulting in delays that cause deals to collapse. It is recommended that all reputable banks should be allowed to approve LRAD grants for eligible clients whose loan applications have been assessed and found creditworthy.

Previously disadvantaged women accounted for most non-market transfers and were relatively well represented in cash-financed transactions. However, they gained less land and much less land wealth than did their male counterparts. Women were well represented in transactions financed by Ithala to establish sugarcane farmers, but were poorly represented among clients financed by the Land Bank. There is also concern that women's interests are under-represented in land purchased by corporate entities, which accounted for 64% of the area and 50% of the land wealth redistributed during 1997-2003. Other research shows that control of community land trusts and communal property associations established by government to represent the interests of land reform beneficiaries usually is skewed in favor of men, while ownership and control of farmworker equity share schemes is not.

Related reading

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